

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6164**

**BILL NUMBER:** HB 1026

**NOTE PREPARED:** Nov 17, 2008

**BILL AMENDED:**

**SUBJECT:** Earned Income Tax Credit Rate Increase.

**FIRST AUTHOR:** Rep. Day

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill increases the amount of the Indiana Earned Income Tax Credit from 9% to 10% of the Federal Earned Income Tax Credit. It provides that a debtor's Indiana Earned Income Tax Credit is property that is exempt under the bankruptcy property exemption statute. (Current law provides only that a debtor's federal Earned Income Tax Credit is exempt property.)

**Effective Date:** July 1, 2009; January 1, 2010.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes in this credit. The DOR's current level of resources should be sufficient to implement this change.

*Earned Income Tax Credit (EITC) Refunds:* The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. The amount of additional refund amounts that could potentially be claimed by TANF participants if the EITC is increased from 9% to 10% beginning in 2010 is indeterminable.

**Explanation of State Revenues:** *Summary* -The bill increases the Earned Income Tax Credit (EITC) under the individual AGI Tax from 9% to 10% of the federal EITC beginning in tax year 2010. The credit increase is estimated to reduce individual AGI Tax revenue by approximately \$11.3 M in FY 2011. The revenue loss could potentially grow by 7.4% annually thereafter.

*Background Information* - Under current statute, the EITC is equal to 6% of the federal EITC until tax year 2009 when the EITC increases to 9% of the federal EITC. In 2007, state income tax return data indicates that about 464,000 taxpayers claimed the 6% EITC, with the credits claimed by these filers totaling about \$54.7 M. Since 2004, the number of taxpayers claiming the EITC has grown by an average of 4.1% per year, with the average credit growing at about 3.1% per year. This has resulted in total credits claimed increasing by an average of 7.4% annually. Under the 9% EITC, credits are estimated to total approximately \$101.6 M in 2010. Revenue from the individual AGI Tax is deposited in the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** OFMA Income Tax Databases, 2003-2006; U.S. Internal Revenue Service, Statistics on Income, <http://www.irs.gov/taxstats>; Bob Walls, Department of State Revenue, 317-232-210.

**Fiscal Analyst:** Jim Landers, 317-232-9869.